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4 March 1957

MEMORANDUM FOR: Assistant Director for Research and Reports.

SUBJECT: Notes on the Polish Trade Discussions.

The meeting on February 28 was devoted to a series of questions related to the Polish Balance of Payments.

(1) Can Poland present a Balance of Payments statement in dollars according to the IMF (International Monetary Fund) categories?

This can be done but it must be deferred.

(2) What are Poland's annual export plans for the next 3 years?

No 5 year plan has been approved. There is no breakdown of foreign trade in commodities by countries for 3 or 4 years in advance, rather only the total amount that must be imported or exported. Total plans of commodity trade by countries must depend on talks such as are being conducted here.

(3) To what extent will Polish internal economic adjustments make possible an expansion of exports?

It is not possible to give an answer, but an example may help. In the case of coal the modernization of one mine will increase coal output by 1 million tons annually in 2 or 3 years. Polish mines are considerably larger and deeper than those in the U.S.; their depth averages 400 to 500 meters. Or again, the electrification of

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Polish railroads will result in a saving of coal consumption. The railroad from Warsaw to Silesia has already been electrified. Plans are in existence for the electrification of the railroad from Silesia to the Baltic; 100 kilometers of this road will be electrified within the first year. When this latter project has been completed, 500,000 tons of coal will be saved or 10 million dollars. Electric engines will be substituted on this line in stages as electrification progresses. These electric engines are being made at (phonetic spelling) BROADSMA. The foreign exchange cost of modernizing one mine is a relatively small part of the total cost. Most of the necessary equipment would come from Poland; 5 to 6 million dollars per mine would be required for special Western equipment. When questioned as to whether a reduction in investment in Poland would not make available resources for the export industries, the Polish delegate said that while investment has been as high as 29% of total expenditures in Poland, it is now 19 or 20%. The delegate also pointed out that in shifting resources from investment to export, the size of the loaf is not changed. Coal exports may decrease somewhat in 1957, but it is hoped they will remain at about the 1956 level. More coal will be used in Poland for consumption and manufacturing.

(4) What is the share of the Communist countries in Polish imports of investment goods?

This has differed a great deal from country to country and according to the degree of fabrication. In 1955 41% of Poland's investment goods-imports came from the USSR; 46% from the European

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Satellites and 13% from the Free World. In 1956, by comparison, 30% came from the USSR; 46% from European Satellites and 24% from the Free World (the share of the USSR in 1955 was made larger than normal by the completion of MOVA BUDA).

(5) What are unit prices for principal Polish export items?

The fact that different prices are received by Poland on the same commodity exported to different places reflects only differences in bargaining advantages. Poland has received for her coal exports 20-28 dollars per ton from both Socialist and Capitalist countries. In practice prices for the same commodities are everywhere the same. As an example of the relationship between internal and external prices it was stated that the retail price of coal in Poland is 300 zlotys per ton; in Western and Socialist markets it is 20 dollars per ton, while coal is sold to manufacturers in Poland for 160 zlotys per ton. This last price is unrealistically low and is going to be adjusted.

(6) How are foreign trade prices determined?

The producer sells to the foreign trade enterprise for cost plus the profit. The foreign trade enterprise gets foreign exchange; it is debited for zlotys and credited with foreign currencies. Prices in Poland are not a direct result of market forces. The State treats foreign trade as a part of its total economic operation. When looking at total Polish imports the dollar-zloty ratio for the commodities involved would average about 1 to 24; the range of ratios, however,

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could vary from 10 to 40 zlotys to the dollar. The internal zloty value of Polish imports is about 24 billion zlotys. The geographic distribution of exports is determined both by allocation and by bargaining. Industrial goods are exported principally on the basis of allocation; standardized commodities (raw materials) are exported primarily on the basis of bargaining.

(7) What proportion of Polish exports of investment goods to underdeveloped countries has been financed by credit extensions?

Poland has given no credits so far in such transactions.

Poland has been receiving cash or raw materials for its exports. Investment goods are usually made to order rather than being drawn from stocks.

(8) How will industrial liberalization and the reduction of forced deliveries of agriculture affect the Balance of Payments?

The immediate effect will be an increase in imports in order to maintain stocks at the necessary level. Poland will have to import grain for the period during which the farmers will try to withhold their grain. Once the farmers start to sell, the necessary imports will decline. Poland hopes eventually to eliminate or at least greatly reduce imports of grain.

(9) To what extent is Poland tied to Bloc countries by CEMA?

Poland is not tied to CEMA; CEMA only recommends, but the member countries may do as they please. With any change in an agreement, however, CEMA must be consulted.

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(10) What is Poland's indebtedness to Communist countries?

Poland received a credit from the USSR of 100 million rubles (25 million dollars). This credit was used last autumn to buy 50 million rubles of merchandise and 50 million rubles worth of gold. A 700 million ruble credit from the USSR has not yet been used, and no payments on it are due prior to 1958. Poland has received a credit from the USSR of 100 million dollars for 1,400,000 tons of grain. When the first deliveries of grain under this credit began, heavy snows created sizeable transportation tie-ups, thus delaying its arrival.

When the transportation difficulties were unravelled, the grain arrived in such volume that Poland had considerable trouble in handling it. The grain credit is to be paid after 1961.

(11) Do you have any problems with immediate settlements on swing credits?

Swing balances with Socialist countries take care of themselves; they are carried over into the next year's account. The amount of credit available to Poland in existing bilateral agreements with the West is about 40 million dollars. This amount is subject to considerable seasonal fluctuation.

(12) Would you estimate Polish debts to the West for nationalized property and defaulted agreements?

Western claims against Poland for these purposes would be subject to negotiation. In the case of the settlement reached with the UK, Poland agreed to pay about 21% of the total amount originally claimed by the UK.

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(13) What are Polish foreign exchange reserves in all forms?

In trade with the Socialist countries Poland needs no foreign exchange reserves. Any credits or debits are handled in the swing balances. In trade with Capitalist countries swing balances are used to some extent. Poland must, however, keep dollar, sterling, and Mark balances. Polish trade with the West is subject to considerable seasonal fluctuation being subject to deficits during the first half of the year, surpluses during the second half. Foreign exchange holdings are necessary to cover these seasonal demands. Poland expects, according to the trade patterns for which it is planning, that it will need about 75 million dollars in foreign exchange in order to finance its trade.

(14) How important is income from shipping?

Not too important. Poland normally receives sterling in payment for shipping services.

(15) What is the total of private remittances Poland receives from abroad?

In 1956 Poland received 6 million dollars in all currencies. It is not possible to estimate receipts from remittances for the future.

(16) What support does Poland have to give Russian troops stationed in Poland?

The Polish delegate said that for obvious reasons he did not want to answer the question in detail, but would state that the USSR paid for everything its troops requisitioned, and that Poland, on balance, gains.

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(17) What does Poland earn from the transit of goods by rail between the USSR and East Germany?

Poland earns from 30 to 40 million dollars per year; this is a net gain.

(18) What is the amount of the recent Czech loan to Poland?

900 million zlotys.

When questioned about the average level of Western foreign exchange reserves held by Poland in the past, it was stated that this would average about 15 million dollars during the first half of the year.

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